

## Iowa Tax

The quarterly newsletter of the Iowa Department of Revenue and Finance

# Iowa sales tax deposits to include local option tax beginning July 1, 1997

**E**ffective July 1, 1997, local option taxes must be remitted to the Iowa Department of Revenue and Finance in the same frequency as required for state retail sales tax. Because House File 0729 requires that local option taxes be distributed to cities and counties on a monthly basis rather than quarterly, local option taxes must be sent to the state whenever state sales tax deposits or quarterly payments are remitted. This statutory change will provide uniformity in the reporting and depositing of state sales tax and local option sales tax.

## State sales tax determines filing status

The local option sales tax will not be used to determine the frequency of depositing and

reporting sales taxes. Only the state sales tax amount will be used to determine how often sales taxes must be deposited or reported.

## Monthly distribution of local option tax to begin

Beginning July 1, 1997, the State of Iowa will make a monthly distribution of local option sales taxes to the appropriate cities and counties based on an estimate of 95 percent of tax collections. The first estimate will be made by August 31 of the fiscal year and then the last day of each month thereafter. An annual reconciliation will be made by November 10 of the next fiscal year.

## Jurisdiction imposes local option sales tax

**V**oters in the following jurisdiction have adopted the local option sales tax effective July 1, 1997. The county and county code are listed in bold.

### **Worth (98)** - Unincorporated Area

A complete list of all current local option sales tax jurisdictions can be obtained by calling our fax-on-demand system at 1-800-572-3943. Order form number 96 79 901. The list is also available on our website.

## Many 'summer services' subject to sales tax

Seasonal services such as lawn care and landscaping are subject to Iowa sales tax, which means that these businesses must have sales tax permits. Other examples of taxable seasonal services are boat repair, farm implement repair, tree trimming and removal, motorcycle and bicycle repair, swimming pool cleaning and maintenance and all fees and charges for recreational activities (golf, tennis, country club dues, etc.).

Contact us if you know of someone who does not have a permit. We will send that person the information needed to become registered.



## DEPARTMENT SERVICES

### ONLINE

*Internet Address (URL)*

<http://www.state.ia.us/tax>

*E-mail*

[iadrf@iadrf.e-mail.com](mailto:iadrf@iadrf.e-mail.com)

### BY TELEPHONE

*Taxpayer Services*

from Des Moines  
or out of state,

(515) 281-3114

from elsewhere in Iowa or  
Rock Island-Moline or Omaha

1-800-367-3388

*To Order Iowa Tax Forms*

(515) 281-7239 or  
1-800-532-1531

*"Where's My Refund?"*

(515) 281-4966 or  
1-800-572-3944

### BY FAX

*Receive Iowa Tax Forms by Fax*

1-800-572-3943

*Department Fax Number*

(515) 242-6040

### BY MODEM

*ERIN (electronic bulletin board)*

(515) 281-3248 or  
1-800-972-2028



# LEGISLATIVE SUMMARIES FOR 1997

Following are brief summaries of tax-related legislation signed into law following the 1997 session of the Iowa Legislature. More detailed information regarding some of these provisions will appear in future issues of *Iowa Tax News*.

## INDUSTRIAL MACHINERY AND EQUIPMENT

### A.) Definition of processing

The definition of "processing" is expanded to include nearly all aspects of manufacturing beginning with the manufacturer's receipt or production of the raw material and ending with the manufacturer's delivery for shipment or transfer of the finished product and including intermediate steps of manufacturing which involve the movement of the product or holding the product in an existing state.

### B.) Fuel

Fuel used in creating heat, power, or steam for processing, or for generating electrical current, remains exempt from tax.

### C.) Replacement parts

Sales of "replacement parts" are exempt, with no requirement that those parts be depreciable for income tax purposes.

### D.) Manufacturer's materials

Sales of materials used to construct industrial machinery or equipment for use by a manufacturer rather than for subsequent resale by the manufacturer are exempt from tax.

### E.) Processing and quality control

Sales of machinery and equipment used to maintain conditions necessary to process a product or to maintain the conditions necessary for machinery used in processing to operate or used in quality control are exempt from tax.

### F.) Real property

Industrial machinery, equipment and computers are no longer required to be real property.

### G.) Definition of manufacturer

The word "manufacturer" is defined to include a contract manufacturer.

*Provisions A-G, above, are effective July 1, 1997 for sales and use occurring on and after that date.*

### Property tax phase-out / exemption

The phase-out of the property tax applies to computers and industrial machinery and equipment acquired prior to 1982, making the phase-out applicable regardless of the acquisition date of the property.

*Effective July 1, 1997. Applies to assessments made on or after January 1, 1998, and claims for reimbursement payable on or after July 1, 1997.*

## CORPORATION INCOME TAX

### Resident shareholder of S corporation

If a resident shareholder in an S corporation elects to apportion income in a year and in a later year elects not to apportion income, then the shareholder cannot re-elect to apportion income for the three tax years immediately following the first tax year in which the shareholder elected not to apportion income.

*Effective January 1, 1997, for tax years beginning on or after that date.*

### Partnerships taxed as corporations

Any partnership that is taxed as a corporation under the Internal Revenue Code will be taxed as a corporation for Iowa tax purposes.

*Effective: Retroactive to January 1, 1997, for tax years beginning on or after that date.*

### S corporation apportionment refund

Resident shareholders of value-added S corporations doing business within and without Iowa may take advantage of the apportionment provisions by filing a tax return utilizing apportionment to compute Iowa taxable income. No refund claim is required and the \$5 million cap on refunds was removed.

*Effective: Retroactive to January 1, 1997, for tax years beginning on or after that date.*

### Nexus limitation foreign corporations

A foreign corporation will not have

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# LEGISLATIVE SUMMARIES FOR 1997

nexus in Iowa if it only carries on the following activities in Iowa: training employees, or educating employees, or using facilities in Iowa for this purpose.

*Effective: Retroactive to January 1, 1997, for tax years beginning on or after that date.*

## AGRICULTURE

### Aquaculture

Aquaculture is now part of exempt agricultural production.

*Effective July 1, 1997.*

### Cow-calf credit changes

The livestock production credit refunds will be allowed for tax years beginning on and after January 1, 1997, only to qualified corporate and individual taxpayers who operate cow-calf beef operations. A qualified taxpayer is a corporation or an individual with a federal taxable income of \$99,600 or less. In the case of married individuals, their combined federal taxable income must be \$99,600 or less in order for them to be eligible. For tax years beginning after 1997, the federal taxable amount of \$99,600 will be increased or indexed for inflation. Qualifying cattle are mature beef cows bred or for breeding, bred yearling heifers and breeding bulls. Two million dollars has been appropriated for refunds for tax years beginning in 1997.

*Effective on or after January 1, 1997, for tax years beginning on or after that date.*

### Exemption for certain chemicals

Sales of adjuvants, surfactants and certain other products which directly enhance the effects of fertilizer, limestone, herbicide, pesticide, and insecticide used in agricultural production are exempt from tax.

*Effective upon enactment, February 11, 1997, retroactive to April 1, 1990, for sales or uses occurring on or after that date. Refunds resulting from the retroactively cannot exceed \$25,000 in the aggregate and will not be allowed unless refund claims are filed prior to October 1, 1997.*

## SALES TAX

### Prepaid authorization numbers and calling cards

Sales of prepaid calling cards and prepaid authorization numbers are sales of tangible personal property, and a 5 percent tax is imposed on the gross receipts from those sales.

*Effective July 1, 1997.*

### Nonprofit, private museums

Only nonprofit, private museums located in this state are eligible for the refund of taxes paid by a contractor used in the fulfillment of a written contract.

*Effective July 1, 1997.*

### Liberalized purchase for lease exemption

Gross receipts from sales of tangible personal property (other than vehicles subject to registration) to persons regularly engaged in the business of leasing are exempt from tax if the property is sold for subsequent lease of more than five months and the lease receipts are subject to tax.

*Effective upon enactment, May 19, 1997.*

### Direct payment of tax to the department by purchasers and users

Upon application to the Director and after issuance of a direct pay permit, purchasers, users, and consumers who accrue a tax liability of more than \$4,000 in state sales and use tax in a semimonthly period can pay their state and local option sales tax and retailer's use tax directly to the Department rather than to a seller. This must be done pursuant to rules adopted by the Director. Taxes imposed on certain utility sales, taxes imposed on the use of vehicles subject to registration, and taxes imposed under the motor vehicle lease tax cannot be paid by this method.

*Effective January 1, 1998.*

### Nexus

An out-of-state retailer who has a representative in this state is required to collect and remit sales or use tax. An independent contractor would be a representative

*Effective July 1, 1997.*

## MILITARY

### Property tax exemption

The military exemption is allowable on property owned by a family farm corporation provided the property is occupied by a shareholder of the corporation.

*Effective July 1, 1997.*

### Exemption of active duty pay

A total income tax exemption exists for active-duty military pay of persons in the National Guard or the armed forces military reserve who served overseas pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area. To qualify for the income tax exemption, the individual receiving the active duty military pay must have served overseas due to orders related to peacekeeping in Bosnia-Herzegovina but did not have to serve in the Bosnia-Herzegovina area.

*Effective: Retroactive to November 21, 1995, for active duty pay received on or after that date.*

## FUEL TAX

### Watercraft

A refund is allowable for the tax paid on undyed special fuel used in watercraft.

*Effective May 19, 1997. Retroactive to July 1, 1996.*

## INHERITANCE TAX

### Elimination of inheritance tax on shares received by certain individuals

In addition to the exemption from inheritance tax for a surviving spouse, this amendment also eliminates inheritance tax on property passing to parents, grandparents, great-grandparents, and other lineal ascendants, children including legally adopted children and biological children entitled to inherit under the laws of this state, stepchildren, and grandchildren, great-grandchildren, and other lineal descendants of the decedent.

*Effective: Estates in which the decedent died on or after July 1, 1997.*

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# LEGISLATIVE SUMMARIES FOR 1997

## **Disposition of safe deposit box contents**

An inventory of the contents of the decedent's safe deposit box will no longer be performed by the financial institution and reported to the Department of Revenue and Finance.

*Effective July 1, 1998.*

## **INCOME TAX**

### **Reduction in rates**

The tax rates for individual income tax are reduced by 10 percent. The tax rate for the Iowa alternative minimum tax was reduced to 6.7%.

*Effective January 1, 1998, for tax years beginning on or after that date.*

### **Major federal provisions adopted**

Three major federal tax acts were enacted in August of 1996 that included provisions which impact Iowa income tax. The following are brief summaries of some of the major provisions of the federal legislation. These provisions are effective on January 1, 1997, for the most part. The effective dates are specified below for those items that apply on dates other than January 1, 1997.

**Individual Retirement Accounts:** In situations where only one spouse has earned income, that individual can contribute up to \$2,000 per year to an IRA account of the nonworking spouse and up to \$2,000 per year to an IRA account of the individual. Under prior law only \$2,250 could have been contributed to the IRA accounts of the spouses. The aggregate contributions to IRA's for both spouses cannot exceed the combined compensation of the couple for the tax year.

**Punitive damage awards:** Damage awards, including awards for emotional distress, are fully taxable except for damage awards for physical injury or physical illness. This applies to awards received on or after August 21, 1996.

**Provisions relating to S corporations:** A number of provisions were passed to enable corporations to elect S corpo-

ration status. The maximum number of shareholders was increased to 75 from 35. Financial organizations, including banks can be owned by S corporations for the first time.

**Employee education assistance exclusion:** The up to \$5,250 per employee educational assistance exclusion for qualified educational programs is retroactively reinstated for tax years beginning after December 1994. The exclusion expires for courses beginning after June 30, 1997 and to expenditures for graduate courses beginning after June 30, 1996. Taxpayers who had employee education benefits in 1995 can file amended 1995 returns to exclude the education assistance benefits that were reported on the original IA 1040's for that tax year.

**Long-term care insurance premiums:** Health insurance premiums for long-term nursing care coverage qualify for the federal itemized deduction for medical care expenses, subject to the floor of 7.5 percent of adjusted gross income, starting in 1997. Thus, health insurance premiums for long-term care will qualify for the Iowa special 100% health insurance deduction on 1997 Iowa returns.

**Medical savings accounts:** Medical savings accounts are authorized for self-employed individuals and for employees of certain "small employers" with high deductible health insurance plans. The medical savings accounts are authorized under a four-year test program. Taxpayers who are eligible for the MSA accounts will be able to claim the same deductions on their Iowa returns for contributions to the accounts that they will be able to claim on their federal income tax returns. Taxpayers with the accounts will be able to use funds in the accounts to pay any legitimate medical expenses. Distributions from the MSA accounts that aren't used for medical expenses are included in income for both federal and Iowa income tax purposes.

**Increase in capital investments that may be expensed:** The \$17,500 annual cap on the amount of depreciable property a small business can expense is increased to \$18,000 for 1997 and

gradually raised in steps to a final annual cap of \$25,000 for tax years beginning after 2002.

## **MOTOR VEHICLE LEASE TAX**

### **Additional tax may not be due**

The owner of a leased vehicle may not owe additional use tax on a vehicle as long as the owner does not use the vehicle for a purpose other than for lease. If a lease terminates prior to the expiration of a 12-month lease period, the owner does not owe additional use tax as long as the vehicle is not used for a purpose other than for lease.

If a transaction involving a leased vehicle does not require registration or titling of the vehicle, such as if the owner uses the vehicle for his or her own use or if a lessee exercises an optional lease period, tax on the transaction can be remitted to the Department of Revenue and Finance. Tax will be remitted to the department on or before 15 days from the last day of the month that the tax becomes due.

### **Computation of price**

The computation of lease price now excludes title fees, registration fees, lease tax, federal excise tax, optional service or warranty contracts subject to tax under Iowa Code section 422.43(6), insurance, manufacturer's rebate, refundable deposit and any applicable finance charges on these specified items. If the owner and lessee agree that the lessee will reimburse the owner for the tax imposed under this law, the amount of tax may be reimbursed to the owner either by lump sum or as part of the monthly payments. However, the total amount reimbursed by the lessee to the owner shall not be included in the calculation of the taxable lease price.

### **Terminated lease**

If a lease is terminated prior to the termination date in the lease agreement a refund of tax previously paid will be allowed if the vehicle falls under the provisions of "Lemon Law" found in Iowa Code section 322G.4.

*Effective: For leases entered into on or after July 1, 1997.*

# IOWA LOCAL OPTION SALES TAX

Jurisdiction codes effective for the quarter beginning July 1, 1997

••• All jurisdictions listed below have imposed the local option tax at a rate of 1 percent •••

COUNTY / CODE	JURISDICTIONS	EFFECTIVE	COUNTY / CODE	JURISDICTIONS	EFFECTIVE
ALLAMAKEE / 03	Harpers Ferry, Postville, Waterville	1-1-95	HOWARD / 45	Chester, Cresco, Lime Springs, Protivin	1-1-94
	Waukon	1-1-96		Elma, Unincorporated Area	7-1-94
	Lansing, New Albin	7-1-96		Riceville	1-1-95
BLACK HAWK / 07	Cedar Falls, Elk Run Heights, Evansdale, Hudson, Raymond, Waterloo	4-1-91	IDA / 47	Galva	4-1-97
	Dunkerton, Gilbertville, Janesville, La Porte City, Unincorporated Area	10-1-91	IOWA / 48	Ladora, North English, Parnell, Williamsburg	4-1-94
				Marengo, Millersburg, Victor, Unincorporated Area	4-1-95
BOONE / 08	Berkley, Luther, Pilot Mound	4-1-89	JACKSON / 49	Baldwin, La Motte, Miles, Preston, Sabula, Saint Donatus, Spragueville, Springbrook, Bellevue, Zwingle	10-1-89
	Boone	7-1-90		Maquoketa, Monmouth	4-1-91
	Boxholm, Ogden, Sheldahl, Unincorporated Area	1-1-91		Andrew, Unincorporated Area	10-1-94
	Madrid	7-1-91		Cascade, Center Junction, Morley, Olin, Onslow, Oxford Junction	1-1-95
	Fraser	1-1-92	JONES / 53	Monticello, Wyoming	4-1-95
	Beaver	1-1-95		Fort Madison, Franklin, Keokuk, Montrose	1-1-96
BUCHANAN / 10	Aurora, Lamont, Stanley	10-1-95	LEE / 56	St. Paul	10-1-91
BUENA VISTA / 11	Albert City, Linn Grove, Marathon, Newell, Sioux Rapids, Truesdale,	7-1-91		Donnellson, Houghton, West Point, Unincorporated Area	1-1-93
	Alta, Lakeside, Rembrandt, Storm Lake, Unincorporated Area	10-1-95		Bertram	1-1-95
BUTLER / 12	Allison, Aplington, Aredale, Bristow, Dumont, Greene, New Hartford, Parkersburg	1-1-97	LYON / 60	Alvord, Doon, George, Inwood, Lester, Little Rock, Rock Rapids, Unincorporated Area	1-1-86
CASS / 15	Anita, Cumberland, Griswold, Lewis, Marne, Massena, Wiota	1-1-97		Barnes City, Beacon, Fremont, Keomah Village, Leighton, New Sharon, Oskaloosa, Rose Hill, University Park, Unincorporated Area	10-1-96
CERRO GORDO / 17	Clear Lake, Dougherty, Mason City, Meservey, Plymouth, Rock Falls, Rockwell, Swaledale, Thornton, Ventura	7-1-92	MAHASKA / 62	Eddyville	4-1-95
	Unincorporated Area	1-1-93		Liscomb	10-1-95
CHEROKEE / 18	Aurelia, Cleghorn, Larrabee, Marcus, Meriden, Washta	7-1-96	MARSHALL / 64	Emerson, Henderson, Malvern, Tabor	1-1-97
CHICKASAW / 19	Alta Vista, Bassett, Fredericksburg, Ionia, Lawler, Nashua, New Hampton, North Washington, Unincorporated Area	4-1-97	MILLS / 65	Carpenter, Mitchell, Orchard, Osage, Riceville, St. Ansgar, Stacyville	1-1-96
CLAYTON / 22	McGregor	1-1-90	MITCHELL / 66	McIntire, Unincorporated Area	1-1-95
	Elkader, Garnavillo, Luana, Millville, Marquette, Saint Olaf	4-1-94		Blencoe, Castana, Mapleton, Moorhead, Onawa, Rodney, Soldier, Turin, Ute, Whiting, Unincorporated Area	7-1-95
	Elkport, Farmersburg, Garber, Guttenberg, Littleport, Monona, Volga	10-1-94	MONONA / 67	Coburg, Elliott, Stanton, Villisca	7-1-90
	Edgewood, North Buena Vista, Strawberry Point, Unincorporated Area	10-1-95	MONTGOMERY / 69	Grant	1-1-96
CLINTON / 23	Andover, Calamus, Camanche, Clinton, Delmar, De Witt, Goose Lake, Grand Mound, Low Moor, Toronto, Welton, Wheatland, Charlotte, Lost Nation, Unincorporated Area	10-1-89	MUSCATINE / 70	Atalissa, Conesville, Fruitland, Muscatine, Stockton, Wilton	4-1-96
DECATUR / 27	Davis City, Decatur, Garden Grove, Grand River, Lamon, Leroy, Pleasanton, Van Wert	1-1-90		Nichols, Unincorporated Area	7-1-94
DELAWARE / 28	Colesburg, Delaware, Delhi, Earlville, Greeley, Manchester, Masonville,	1-1-97	O'BRIEN / 71	Archer, Calumet, Paullina, Primghar, Sanborn, Sheldon, Sutherland, Unincorporated Area	1-1-95
	Dundee, Dyersville, Hopkinton, Ryan, Unincorporated Area	10-1-94	PAGE / 73	Blanchard, Braddyville, Coin, College Springs, Essex, Shambaugh, Shenandoah, Yorktown	1-1-96
	Edgewood	4-1-95		Clarinda, Hepburn, Northboro, Unincorporated Area	7-1-96
DES MOINES / 29	Burlington, Danville, Middletown, West Burlington	4-1-96	POLK / 77	Polk City	1-1-86
	Mediapolis, Unincorporated Area	10-1-94		Sheldahl	7-1-87
DICKINSON / 30	Lake Park, Okoboji, Orleans, Spirit Lake, Superior, Terril	4-1-95	POTTAWATTAMIE / 78	Macedonia, Minden	1-1-89
DUBUQUE / 31	Asbury, Balltown, Centralia, Dubuque,	4-1-97		Council Bluffs	4-1-90
	Holy Cross, Sageville, Zwingle	4-1-88		Avoca, Carson, Carter Lake, Crescent, Hancock, McClelland, Neola, Oakland, Treynor, Underwood, Walnut	1-1-95
	Bankston, Bernard, Epworth, Farley, Graf, Peosta, Sherrill, Unincorporated Area	7-1-88	SCOTT / 82	Unincorporated Area	4-1-95
	Cascade, Dyersville, Luxemburg, New Vienna, Rickardsville, Worthington	10-1-89		Bettendorf, Blue Grass, Buffalo, Davenport, Dixon, Donahue, Eldridge, LeClaire, Long Grove, Maysville, McCausland, New Liberty, Panorama Park, Princeton, Walcott, Riverdale, Unincorporated Area	1-1-89
FAYETTE / 33	Arlington, Clermont, Elgin, Hawkeye, Maynard, Oelwein, Randalia, St. Lucas, Wadena, Waucoma, Westgate	1-1-95		Durant	4-1-97
	Fayette, West Union, Unincorporated Area	7-1-95	SIoux / 84	Alton, Boyden, Chatsworth, Granville, Hawarden, Hull, Ireton, Matlock, Maurice, Orange City, Sioux Center, Unincorporated Area	10-1-95
FLOYD / 34	Floyd, Marble Rock, Nora Springs, Rockford, Rudd	10-1-96		Hospers, Rock Valley, Sheldon	7-1-96
FRANKLIN / 35	Coulter, Dows, Geneva, Hansell, Latimer, Sheffield	10-1-95	STORY / 85	Ames, Huxley	1-1-87
	Hampton, Popejoy, Unincorporated Area	10-1-96		Cambridge, Collins, Colo, Gilbert, Kelley, McCallsburg, Roland, Sheldahl, Slater, Unincorporated Area	7-1-87
FREMONT / 36	Farragut, Hamburg, Imogene, Randolph, Riverton, Shenandoah, Sidney, Tabor, Thurman, Unincorporated Area	1-1-96		Nevada, Maxwell, Zearing	1-1-89
HANCOCK / 41	Corwith, Crystal Lake, Garner, Goodell, Kanawha, Klemme, Woden	1-1-96		Story City	10-1-90
	Britt	1-1-97	WINNESHIEK / 96	Decorah	4-1-91
HARDIN / 42	Alden, Buckeye, Eldora, Hubbard, Iowa Falls, Radcliffe, Steamboat Rock, Unincorporated Area	4-1-96		Calmar, Castalia, Fort Atkinson, Jackson Junction, Ossian, Ridgeway, Spillville, Unincorporated Area	7-1-91
	Ackley, New Providence, Owasa, Union, Whitten	1-1-97	WOODBURY / 97	Bronson, Cushing, Moville, Oto, Salix, Sergeant Bluff, Sioux City, Sloan	1-1-87
HENRY / 44	Coppock, Hillsboro, Mount Pleasant, Mount Union, New London, Olds, Rome, Salem, Westwood, Winfield	10-1-95		Anthorn, Correctionville, Danbury, Hornick, Lawton, Pierson, Smithland, Unincorporated Area	10-1-88
	Wayland, Unincorporated Area	1-1-96	WORTH / 98	Fertile, Grafton, Hanlonton, Joice, Kensett, Manly, Northwood	1-1-97
				Unincorporated Area	7-1-97